

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 PA-02 L-03 H-02 (ISO) W
-----016818 301051Z /16

P 300940Z AUG 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 0807
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUG 24-30

1. SUMMARY: PRESS SPECULATES THAT ECONOMIC CABINET
MINISTERS, MEETING SEPT 2, WILL AGREE ON STIMULUS PACKAGE
DESIGNED TO ADD YEN 2.3 - 2.5 TRILLION (ABOUT \$12 BIL) TO
DOMESTIC DEMAND. INDUSTRIAL PRODUCTION UP 0.3 PCT IN JULY.
CONSUMER PRICES DOWN 0.2 PCT IN AUG. END SUMMARY.

2. THE RUNUP TO THE SEPT 2 ECONOMIC CABINET MINISTERS
MEETING AT WHICH NEW ECONOMIC MEASURES ARE SLATED TO BE
FORMULATED GATHERED MOMENTUM THIS WEEK. AGAINST THE
BACKGROUND OF CONTINUING INTERMINISTERIAL DISCUSSIONS,
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PRESS ESTIMATES HAVE IT THAT THE SEPT 2 MEETING WILL
ANNOUNCE AGREEMENT ON A STIMULUS PACKAGE DESIGNED TO ADD
YEN 2.3 - 2.5 TRIL (ABOUT \$12 BIL) TO DOMESTIC DEMAND.
SPENDING ITEMS IN THE PACKAGE (ACCORDING TO THE PRESS)
BREAK DOWN AS FOLLOWS (IN YEN):

GENERAL PUBLIC WORKS - TOTAL	1,000 BIL
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- OF WHICH

- (CENTRAL GOVT INCL. FLIP) 400 BIL)
- (LOCAL GOVTS 250 BIL)
- (CARRYOVER TO FOLLOWING YRS 100 BIL)
- (OTHER UNSPECIFIED 250 BIL)

ENVIRONMENTAL FACILITIES (SCHOOLS,
PARKS, HOSPITALS, ETC., INCL.
LOCAL GOVTS) 250 BIL

DISASTER RECONSTRUCTION 50 BIL
OVERSEAS ECONOMIC AID (INCL. FLIP) 35 BIL

HOUSING (FLIP) 700 BIL

- OF WHICH

- (APARTMENTS (40,000 UNITS) 400 BIL)
- (HOUSES (30,000 UNITS) 300 BIL)

OTHER FLIP 50 BIL

TOTAL PUBLICLY SUPPORTED SPENDING 2,085 BIL

PASS-THROUGH OF EXCHANGE GAINS BY UTILITIES 300 BIL
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GRAND TOTAL 2,385 BIL

IN ADDITION TO THE DIRECT SPENDING ITEMS AND THE PASS-
THROUGH OF EXCHANGE GAINS, IT IS POSSIBLE ELECTRIC POWER
COMPANIES MAY BE DIRECTED TO INCREASE THEIR INVESTMENT OUT-
LAYS ALTHOUGH THIS WOULD HAVE LITTLE IMPACT WITHIN JFY 78.

3. THE SEPT 2 MEETING IS EXPECTED TO ANNOUNCE ITS RECOM-
MENDATIONS IN THE FORM OF A 7-POINT PROGRAM WHICH, IN
ADDITION TO THE FISCAL STIMULUS PACKAGE, WILL INCLUDE MORE
GENERAL STATEMENTS OF POLICY ON (A) PAYMENTS SURPLUS-
CUTTING MEASURES, (B) SHARING OF GAINS FROM YEN APPRECI-
ATION, (C) FORMULATION OF A NEW FIVE-YEAR ECONOMIC PLAN,
(D) RELIEF FOR STRUCTURALLY DEPRESSED INDUSTRIES, AND (E)
DEVELOPMENT ASSISTANCE. PRESS STORIES SPECULATE THAT THE
OFFICIAL FORECAST FOR THE CURRENT ACCOUNT SURPLUS FOR FY
1978 WILL BE RAISED FROM \$6 BIL TO \$12-13 BIL AND THAT
HENCEFORTH THE CURRENT ACCOUNT FORECAST WILL BE EXPRESSED
IN YEN RATHER THAN DOLLARS.

4. FINANCING OF THE PROGRAM (ACCORDING TO THE PRESS) WOULD

COME MAINLY FROM FISCAL LOAN AND INVESTMENT (FLIP) FUNDS,
BUDGETARY ECONOMIES, AND A CONTROLLED AMOUNT OF NEW DEFICIT
FINANCING. DEFICIT

GENERAL ACCOUNT FINANCING: 400 BIL

- PUBLIC WORKS RESERVE FUND 200 BIL

- OTHER RESERVE FUNDS 20 BIL

- ECONOMIES IN PREVIOUSLY

- BUDGETED PROGRAMS 100 BIL

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FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 PA-02 L-03 H-02 (ISO) W
-----016815 301050Z /16

P 300940Z AUG 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 0808

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

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AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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- ECONOMIES FROM LOWER-THAN-

- EXPECTED WAGE INCREASES 80 BIL

FISCAL LOAN AND INVESTMENT PROGRAMS: 700 BIL

- UNCOMMITTED POSTAL SAVINGS

- INFLOWS 400 BIL

- RESALE OF GOJ BOND HOLDINGS 200 BIL

- UNIDENTIFIED 100 BIL

LOCAL GOVT (APPROX)	250 BIL
UNIDENTIFIED SOURCES	650 BIL
UTILITY CO. REBATES	300 BIL
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TOTAL	2,300 BIL
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5. PRESS ACCOUNTS INDICATE THAT LAST-MINUTE NEGOTIATIONS COULD RAISE THE SIZE OF THE TOTAL PACKAGE TO ABOUT 2.5 TRIL YEN. THERE ARE ALSO STORIES THAT PRIMIN FUKUDA HAS KEPT IN RESERVE THE OPTION OF OFFERING A TAX REBATE AS A CONCESSION TO BE MADE DURING THE DIET NEGOTIATIONS IF THIS BECOMES NECESSARY TO WIN APPROVAL OF THE PROGRAM.

6. MINING AND MANUFACTURING PRODUCTION WAS UP 0.3 PCT (S.A.) IN JULY OVER THE PRIOR MONTH'S LEVEL BUT SHIPMENTS FELL 0.5 PCT. INVENTORIES CONTINUED TO DROP, BY 0.8 PCT, AND THE RATIO OF INVENTORIES TO SHIPMENTS FELL 0.7 PCT (TOKYO 15595).

7. TOKYO CONSUMER PRICE INDEX, N.S.A.A., FELL 0.2 PCT IN AUG. EXCLUDING SEASONAL ITEMS, THE AUG PRICE DECLINE WAS A LARGER 0.4 PCT. DURING PAST SIX-MONTH PERIOD (AUG OVER FEB) TOKYO CPI HAS ADVANCED AT ANNUAL RATE OF 4.8 PCT. NATIONAL CPI IN JULY ROSE 0.4 PCT (N.S.A.) TO 123.0 PCT (TOKYO 15394). MANSFIELD

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